ATTACHMENT F

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Resolution of petition(s) to establish nondiscriminatory rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes.	DOCKET NO. 950985-TP ORDER NO. PSC-96-0445-FOF-TP ISSUED: March 29, 1996

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
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JOE GARCIA
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FINAL ORDER ESTABLISHING NONDISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR LOCAL INTERCONNECTION BETWEEN BELLSOUTH TELECOMMUNICATIONS, INC., METROPOLITAN FIBER SYSTEMS OF FLORIDA, INC. AND MCI METRO ACCESS TRANSMISSION SERVICES, INC.

BY THE COMMISSION:

I. BACKGROUND

The 1995 Florida Legislature approved substantial revisions to Chapter 364, Florida Statutes. These changes included provisions that authorize the competitive provision of local exchange telecommunications service. As a result, incumbent local exchange companies may elect to be price regulated rather than rate base, rate-of-return regulated companies.

Section 364.16(3), Florida Statutes, requires each local exchange telecommunications company to provide interconnection with its facilities to any other provider of local exchange telecommunications services requesting such interconnection. Section 364.162, Florida Statutes, provides alternative local exchange companies 60 days to negotiate with a local exchange telecommunications company mutually acceptable prices, terms, and conditions for interconnection. If a negotiated price is not established, either party may petition the Commission to establish non-discriminatory rates, terms, and conditions of interconnection.

On September 1, 1995, Teleport Communications Group Inc. (TCG) petitioned the Commission to establish mutual compensation rates for the exchange of telephone traffic between TCG and BellSouth Telecommunications, Inc. (BellSouth). A hearing was scheduled for October, 1996. On October 17, 1995, TCG and BellSouth filed a Joint Motion for Stay of the Proceeding. The parties stipulated to an interconnection agreement; however, they agreed that the stipulation would only stand if BellSouth's alternative one in the Universal Service docket, Docket No. 950696-TP, was approved. Subsequently, we did not approve BellSouth's alternative one; therefore, we scheduled a hearing for January, 10 1996, to set interconnection rates, terms and conditions with BellSouth.

On October 20, 1995, Continental Cablevision, Inc. (Continental) filed a petition to establish mutual compensation rates for the exchange of telephone traffic between Continental, BellSouth, United Telephone Company of Florida (United), Central Telephone Company of Florida (Centel), and GTE Florida Incorporated (GTEFL) in this docket. On October 31, 1995, Continental filed a Motion for Stay of Proceeding until December 15, 1995, to review the TCG and BellSouth agreement. Continental later withdrew its request for interconnection with GTEFL. Continental's request for interconnection with United/Centel was scheduled for a hearing to begin March 11, 1996.

On November 13, 1995, Metropolitan Fiber Systems of Florida, Inc. (MFS-FL), filed a petition requesting that the Commission establish nondiscriminatory rates, terms, and conditions for local interconnection with BellSouth. On November 14, 1995, MCI Metro Access Transmission Services, Inc. (MCImetro), filed a petition requesting that the Commission establish nondiscriminatory rates, terms, and conditions for local interconnection with BellSouth. On November 20, 1995, Time Warner AxS of Florida, L.P. and Digital Media Partners (collectively Time Warner), filed petitions requesting that the Commission establish nondiscriminatory rates, terms, and conditions for local interconnection with BellSouth.

All of these petitions for interconnection with BellSouth were to be addressed at a Commission hearing on January 10 - 11, 1996. However, on December 8, 1995, BellSouth, FCTA, Continental, and Time Warner filed a joint motion requesting that we adopt and approve a proposed Stipulation and Agreement (Stipulation) that would resolve all major issues involving these parties relating to Docket Nos. 950696-TP (universal service), 950737-TP (number portability), 950984-TP (resale/unbundling), and 950985-TP (interconnection). At the December 19, 1995 agenda conference, we approved the Stipulation. See Order No. PSC-96-0082-AS-TP, issued January 17, 1996. Intermedia (ICI), TCG, and Sprint Metropolitan Network, Inc. later signed the Stipulation. Therefore, the hearing to begin on January 10, 1996, only pertained to MFS-FL and MCImetro as petitioners for interconnection with BellSouth.

By request of the parties at the prehearing conference, the hearing was rescheduled to begin on January 9, 1996 pursuant to the Chairman's direction. On January 8, 1996, MFS-FL requested to delay the commencement of the hearing due to inclement weather. The request was granted, and the hearing in this docket was held on January 10 and 11, 1996.

As a result of the Stipulation, only the witnesses of MFS-FL, MCImetro, AT&T and BellSouth presented testimony at the hearing. BellSouth's witnesses Robert Scheye and Dr. Andy Banerjee presented direct and rebuttal testimony. AT&T's witness Mike Guedel, MFS-FL's witness Tim Devine, and MCImetro's witness Don Price also presented direct and rebuttal testimony. Dr. Nina Cornell also presented direct testimony for MCImetro. Intervenors who participated in the hearing but who did not present testimony included TCG, Continental, FCTA, Intermedia, McCaw Communications of Florida, Inc. (McCaw), Sprint Communications Company Limited Partnership (Sprint), and Time Warner.

We note that the term "respective alternative local exchange companies (ALECs)", as used in this Order, refers to the petitioners, MFS-FL and MCImetro.

II. INTERCONNECTION RATE STRUCTURES, RATES AND OTHER COMPENSATION ARRANGEMENTS FOR EXCHANGE OF LOCAL AND TOLL TRAFFIC

Because MCImetro and MFS-FL filed petitions requesting interconnection with BellSouth, we are required by Section 364.162, Florida Statutes, to set nondiscriminatory rates, terms, and conditions for interconnection, except that the rates shall not be below cost. The most contentious issue in this proceeding is establishing the appropriate rate structures, interconnection rates or other compensation arrangements for the exchange of local and toll traffic between the respective ALECs and BellSouth. BellSouth advocated an access charge-based compensation payment arrangement. MFS-FL, AT&T, MCIMetro, and McCaw urged adoption of "bill and keep" or mutual traffic exchange. Time Warner, Digital Media Partners, TCG, FCTA, Intermedia and Continental signed the BellSouth Stipulation. Continental and FCTA stated that we should adopt the terms of the Stipulation for the interconnection rates in this proceeding.

a) BellSouth's Proposal - Switched Access Charges

BellSouth proposes a local interconnection plan that includes the following components: 1) compensation arrangements for terminating traffic on BellSouth and ALEC networks; 2) a default to the toll access model if local calls cannot be distinguished from toll; 3) charges for local interconnection based on the switched access rate structure and rate levels; and 4) a transitional structure that will eventually merge all interconnection plans into one common structure.

b) MFS-FL's and MCImetro's Proposal - Mutual Traffic Exchange

MFS-FL, AT&T, McCaw and MCImetro propose mutual traffic exchange or "bill and keep" as an appropriate compensation mechanism, at least for an interim period. "Bill and keep" was a term originally used in LEC toll settlements after divestiture. LECs would "bill" their originating callers and "keep" the revenues from toll calls while paying the terminating LEC terminating access charges. It was a reciprocal agreement among LECs, and the charges would theoretically even out. This term is more accurate in an calls, which do not have usage-based charges to end users, there is no "billing" or "keeping." MCImetro witness Cornell stated that mutual traffic exchange was a more appropriate term in this instance. We will use the term mutual traffic exchange.

c) The Stipulation

Another option for the local compensation mechanism is the terms and conditions set forth in the BellSouth/FCTA Stipulation (Stipulation). The Stipulation was approved on December 19, 1995. See Order No. PSC-96-0082-AS-TP, issued January 17, 1996. FCTA and Continental state that we should adopt the terms of the Stipulation in this proceeding.

We note that BellSouth did not advocate the local interconnection rate of $0.01052/minute contained in the Stipulation. BellSouth maintained that the Stipulation was a comprehensive agreement and that one element could not be extracted from the Stipulation.

The Stipulation calls for reciprocal delivery of local traffic between the ALECs and BellSouth and mutual compensation. The parties to the Stipulation agreed to pay each other BellSouth's terminating switched access rates, exclusive of the Residual Interconnection Charge (RIC) and Carrier Common Line (CCL) elements of the switched access rate, on a per minute of use basis of $0.01052 for terminating local traffic on each other's network. If it is mutually agreed that the administrative costs associated with the exchange of local traffic are greater than the net monies exchanged, the parties will exchange local traffic on an in-kind basis, foregoing compensation in the form of cash or a cash equivalent. This would be the same as the mutual traffic exchange arrangement proposed by some of the parties in this proceeding.

Under the Stipulation, there is a cap on the amount that local exchange providers are required to compensate another local exchange provider. A local exchange provider is not required to compensate another local exchange provider more than one hundred five percent (105%) of the total minutes-of-use of the local exchange provider with the lower minutes-of-use in the same month.

Under the terms of the Stipulation, each ALEC and BellSouth shall pay each other identical rates for terminating the same type of traffic on each other's network. For originating and terminating intrastate toll traffic, the parties will pay each other BellSouth's intrastate switched network access service rate on a per-minute-of-use basis as appropriate. Thus, when an ALEC customer places a toll call to a BellSouth customer and the ALEC serves as the toll carrier, BellSouth will charge the ALEC terminating network access service rates and vice versa. If the ALEC is serving as a BellSouth customer's presubscribed long distance carrier, then BellSouth can charge the ALEC originating access charges and vice versa.

d) <u>Discussion of BellSouth's Proposal</u>

BellSouth advocates using terminating switched access charges as a local interconnection charge of approximately $0.045 cents per minute. BellSouth asserted that over time it will be increasingly difficult to distinguish types of calls such as toll or local. Thus, one comprehensive rate structure will eliminate the need for such distinctions. Second, BellSouth argues that local interconnection and universal service goals are intertwined, so universal service must also be considered when setting a local interconnection rate. BellSouth also argues that it should be allowed to build contribution into its local interconnection rates for universal service reasons and that its proposed use of switched access charges does not preclude ALECs from competing in the local market. BellSouth states that its proposal encourages competition by offering its network in an economically sound manner, which encourages efficient use by both BellSouth and ALECs. Payments under BellSouth's proposal are mutual. Because of this, BellSouth argues, compensation to ALECs by BellSouth to terminate traffic on an ALEC's network will, to some extent, offset the compensation paid to BellSouth by an ALEC.

The other parties argue that switched access rates are not appropriate, because they are approximately ten times the cost. MFS-FL argues that this would serve as a severe barrier to entry for the ALECs. MCImetro asserts that the use of switched access charges for compensation for terminating local exchange traffic would deny the public of the benefits of local exchange competition, specifically, the benefits of reduced costs and prices. MCImetro also states that the use of switched access rates creates a price squeeze. A price squeeze occurs when the monopoly supplier sets the price of inputs at a level such that the end user price does not recover the price of the input nor the costs of producing the end user service. A dependent competitor that is just as efficient as the monopolist cannot cover all of its costs at the price of the end user product charged by the monopolist.

MCImetro criticizes BellSouth's proposal to use its current access charges as the price of interconnection. Specifically, MCImetro argues that the price is far in excess of BellSouth's costs to provide interconnection, resulting in an inappropriately high burden on competition. To the extent contribution is included in the price for local termination, retail prices are artificially high and competition cannot force prices to cost. Further, MCImetro asserts that the rates will not pass any version of an imputation test, resulting in an anticompetitive price squeeze which is a barrier to entry. Also, MCImetro states that switched access charges include inappropriate contribution to USF/COLR obligations and that BellSouth is attempting to obtain indirectly through the price of interconnection the surcharge on interconnection which we rejected in the USF proceeding. According to MCImetro, BellSouth's proposal's lack of reciprocity is similar to a price squeeze and further denies the full benefits of competition to consumers. MCImetro also argues that full switched access rates are discriminatory on their face when compared to the rates in the Stipulation particularly since BellSouth conceded that the lower rates exceeded cost and provide some contribution. Finally, MCImetro asserts that the proposal contains incentives for BellSouth or ALECs to incur inefficient costs and pass them to its competitors as well as to manipulate the nature of its customer base to achieve cost savings.

BellSouth states that with the use of switched access rate levels, contribution could be made to shared and common costs. BellSouth explains that if it were prohibited from including contribution for shared and common costs in the rate level for local interconnection, it could not cover all of its costs.

BellSouth also disputes the assertion that setting the rate level for local interconnection at switched access rates would cause a price squeeze because of the contribution element. BellSouth proposes an imputation test that requires that the incumbent LEC's price for the competitive retail service must equal the direct cost of providing the retail service plus the contribution earned from the wholesale service, in this case, local interconnection.

BellSouth's proposal acknowledges that the rate level for local interconnection was subject to change based on the interim universal service mechanism. BellSouth notes that we did not establish a specific universal service mechanism but funded universal service and carrier of last resort obligations through markups on services offered by the incumbent LECs. See Order No. PSC-95-1592-FOF-TP. BellSouth states that such markups could extend to services such as local interconnection. Id. at 28.

BellSouth contends that its proposal does not violate Chapter 364 by linking universal service and local interconnection as asserted by MCImetro and MFS-FL. BellSouth states that MFS-FL and MCImetro argue that because language was omitted from the statute that relied on the local interconnection charge to provide for the total cost of universal service, BellSouth could not mention universal service and local interconnection at the same time. BellSouth contends that this is incorrect, because the amendment eliminated specific language but did not add new language that would forbid consideration of whether universal service could have an effect on the local interconnection rate, and that the provision addressed funding all of the cost of universal service through a premium on the local interconnection charge. BellSouth, however, proposes that local interconnection be marked up to partially fund universal service.

Upon consideration, we find that BellSouth's proposal of using full switched access charges, including the Residual Interconnection Charge and Carrier Common Line charges, as a local interconnection rate is not appropriate. We are persuaded by the other parties' evidence that the use of full switched access rates could create a price squeeze and create unnecessary barriers to competition. We also agree that a full switched access charge as a local interconnection rate is not appropriate, because it inappropriately includes contribution towards universal service obligations. The issue of contribution towards universal service obligations was addressed in Docket No. 950969-TP, and the appropriate mechanism for recovering contribution towards universal service obligations was established. Thus, we reject BellSouth's proposal to use its full switched access rates for interconnection.

e) Decision regarding the terms of the Stipulation

As mentioned previously, under the terms of the Stipulation, the parties pay each other BellSouth's terminating switched access rates, exclusive of the RIC and CCL elements of the switched access rate, on a per-minute-of-use basis of $0.01052 for terminating local traffic on each other's network. A local exchange provider is not required to compensate another local exchange provider more than one hundred five percent (105%) of the total minutes-of-use of the local exchange provider with the fewer minutes-of-use in the same month. If it is mutually agreed that the administrative costs associated with the exchange of local traffic are greater than the net monies exchanged, the parties will exchange local traffic on an in-kind basis, foregoing compensation in the form of cash or a cash equivalent.

MFS-FL provided the only practical experience with local interconnection. MFS-FL's witness stated that in New York, MFS was terminating more traffic than it originated. BellSouth, however, offered no practical experience as to whether traffic would be balanced or not. We believe that it is highly speculative to predict that traffic will be imbalanced to BellSouth's detriment such that BellSouth terminates far more ALEC traffic than it sends to them. There was no evidence in the record that suggested such a phenomenon. We find that a supposition that BellSouth will terminate significantly more traffic than it originates through local interconnection is unfounded at this time.

The terms of the Stipulation do not ensure that each company is compensated fairly if traffic is significantly imbalanced. The Stipulation provides that a local exchange provider shall not be required to compensate another local exchange provider for more than up to one-hundred-five percent (105%) of the total minutes of use of the local exchange provider with the lower minutes of use in the same month. Thus, the carrier with the most traffic terminating on the other carrier's network is only financially liable for 5% of the total traffic of the lower-minutes carrier.

We fail to see how the Stipulation ensures each company will recover its costs of local interconnection through usage-based rates. On the contrary, the Stipulation foresees a movement to mutual traffic exchange in the future: "If it is mutually agreed that the administrative costs associated with the exchange of local traffic are greater than the net monies exchanged, the parties will exchange local traffic on an in-kind basis; foregoing compensation in the form of cash or cash equivalent." Thus, we believe these provisions in the Stipulation anticipate a nearly balanced exchange of traffic.

Further, based on the cost information in the record, it appears that the local interconnection rate of $0.01052/minute contained in the Stipulation may be too high. Based on the evidence in the record, we find that mutual traffic exchange is the most appropriate arrangement at this time as discussed in detail below.

f) <u>Decision regarding Mutual Traffic Exchange</u>

According to MCImetro, MFS-FL, and AT&T, there are a number of advantages to the mutual traffic exchange method.

One advantage is reciprocity, because BellSouth and the ALECs "pay" each other exactly the same amount for terminating access. MFS-FL states that under mutual traffic exchange, each carrier would be compensated in two ways for terminating local calls originated by customers of other carriers. First, each carrier would have the reciprocal right to receive termination of local calls made by its customers to subscribers on the other carrier's network without cash payment. This is also referred to as payment in kind. Second, the terminating carrier is compensated for call termination by its own customer, who pays the terminating carrier a monthly fee for service, including the right to receive calls without a separate charge.

MCImetro and MFS-FL also assert that another advantage of mutual traffic exchange is that it minimizes the costs of measurement and billing. MFS-FL's witness, Mr. Devine, argued that since BellSouth has flat-rated residential service, BellSouth may have to install measurement systems to monitor and audit outbound traffic. Installing measuring devices would cause a significant increase in the total service long run incremental cost of the switching function for terminating traffic, resulting in higher prices for consumers and thus would create barriers to entry. With mutual exchange of traffic, there would be no need for terminating companies to measure delivered traffic. MCImetro's witness, Ms. Cornell, added that mutual traffic exchange is the least cost means of compensating for terminating traffic and is, therefore, the method most likely to help drive local exchange rates to the lowest possible level.

Another advantage to mutual traffic exchange is that it provides carriers with the incentive to adopt an efficient network architecture. MFS-FL contends that a compensation scheme in which the terminating carrier is able to transfer termination costs to the originating carrier reduces the incentive of the terminating carrier to use an efficient call termination design.

We are not persuaded by BellSouth's arguments against mutual traffic exchange. BellSouth states that mutual traffic exchange will provide no incentive for ALECs to connect at the end office; rather, it will provide incentive for them to connect at the access tandem, thus, taking advantage of BellSouth's network efficiencies. However, we perceive this as an advantage for mutual traffic exchange and is precisely what we should encourage. Connecting at the access tandem to access several end offices is also what we encouraged for interexchange carriers (IXCs) at Divestiture. At that time, we created access charge structures that promoted IXC connections to the access tandem.

BellSouth also stated that mutual traffic exchange would not eliminate the need for billing and administrative systems. Although toll traffic will be measured and billed, there is a significant expense to measuring local traffic. MCImetro stated that mutual traffic exchange is by far the least-cost method of interconnection.

BellSouth also asserted that mutual traffic exchange does not allow it to recover its costs for terminating local traffic. Although no monies would be traded under mutual traffic exchange, MCImetro's witness, Ms. Cornell, summarized it best:

> ...when you provide something in kind, you are essentially providing it at cost...you are not giving it to each other for free. I mean when you give somebody something for free, there is no exchange of anything. When you exchange something, it's not a for-free transaction; that is a swap; that is an in-kind transaction. Now most of the time we use money so that I can give you something, you pay me money, and I turn around and buy something from somebody else. And instead of having to arrange a three-way or a six-way or a 12-way barter, we do it with money; that is what money is intended to do.
>
> This is a case where two companies directly need to exchange something, they need to exchange traffic. They are going to swap it. They are going to barter it. They are going to trade it in kind. It's not for free.

This follows the concept that a company's costs for furnishing local interconnection consist of two parts: the company's internal costs for terminating calls, and the rates it pays to other companies for terminating its calls. These are true economic costs of furnishing local interconnection. By mutual traffic exchange, each company avoids the cost of the rates it pays to the other company, and therefore receives benefits equal to the benefits it provides.

BellSouth contends that adoption of mutual traffic exchange would violate Section 364.162(4), Florida Statutes. Specifically, this section states that

> In setting the local interconnection charge, the commission shall determine that the charge is sufficient to cover the cost of furnishing interconnection.

BellSouth argues that the statute does not mention bill and keep, mutual traffic exchange, trade, or barter as a basis for exchanging traffic, and that it is clear that the Legislature expected a monetary amount. BellSouth asserts that the interpretation must be consistent with legislative intent, be reasonable so that absurd results are avoided, and be interpreted as a whole so that all parts are consistent with one another. Also, BellSouth contends that not only must there be a charge, it must cover the costs of interconnection. The problem with implementing mutual traffic exchange, BellSouth asserts, is that it contains no recovery for costs associated with termination of local calls.

BellSouth asserts that under mutual traffic exchange, the ALECs want to use BellSouth's network free of charge and that BellSouth is just seeking payment for use of its facilities. BellSouth contends that it will be unable to raise its basic local exchange residential rates to cover the cost of local interconnection and the increased cost associated with the increased usage on the local exchange network. The problem, BellSouth asserts, will only be exacerbated as it provides additional functionalities as part of the interconnection arrangement because its costs will increase even more. Therefore, BellSouth argues, there must be a financial component in any local interconnection plan.

MCImetro contends that mutual traffic exchange would meet the statutory requirements. MCImetro argues that BellSouth's own cost studies estimate that the cost of interconnection can be expressed in "tenths of a cent" per minute. Thus, any cash charge at or above this level would indisputably comply with the statutory requirement. Contrary to BellSouth's assertion that compensation for terminating local traffic must be in cash for terminating local traffic, MCImetro asserts that mutual traffic exchange provides compensation "in kind" which is sufficient in economic terms to cover BellSouth's cost of providing interconnection. MCImetro further argues that the value received from the ALEC's termination of BellSouth's calls will cover the cost of terminating ALEC traffic. Further, because of the value received from the termination of calls by the ALEC, neither BellSouth nor the ALECs are using anyone's network for "free". MCImetro further notes that, despite BellSouth's claim that payment should be in cash, BellSouth, the only one with the necessary cost information, presented no evidence of those costs.

We find the arguments of MCImetro, MFS-FL, and AT&T to be compelling. Based upon the evidence in the record, mutual traffic exchange appears to be the most efficient, least-cost method of interconnection, and should provide the lowest barrier to entry of any method discussed. However, if traffic becomes imbalanced to a significant degree, a usage-based rate may be more appropriate. The companies will be the best judges of which method is least-cost, and they may request that the method be changed if traffic becomes imbalanced.

We disagree with BellSouth's argument that mutual traffic exchange violates Section 364.162(4), Florida Statutes. We are obligated to foster competition while ensuring that the charge set for interconnection covers BellSouth's cost. We agree with BellSouth that the statute must be construed as a whole so that absurd results are avoided. The intent of the Section 364.162(4) is to ensure that interconnection rates are not set below BellSouth's costs. MCImetro asserts that mutual traffic exchange is akin to payment in kind as mentioned above. To construe the statutory language so narrowly to say that mutual traffic exchange would not be an adequate form of compensation would, in our opinion, yield an absurd result. In addition, we find BellSouth's argument incredulous since in BellSouth's Stipulation there is a 105% cap on the exchange of traffic with a default to mutual traffic exchange. Assuming arguendo that BellSouth is correct that mutual exchange of traffic violates Section 364.162(4), then it is also true that the provisions of the BellSouth Stipulation providing a limit on compensation of 105% as well as the default provision to mutual exchange is also violative of the same provision. Nothing in the BellSouth Stipulation insures recovery of costs of termination. In view of the provisions of the Stipulation, the BellSouth proposal appears to be simply punitive with respect to those who did not sign the agreement.

Based upon our review of the record, we find that for the termination of local traffic, the respective ALECs and BellSouth shall compensate each other by mutual traffic exchange. Any party who believes that traffic is imbalanced to the point that the party is not receiving benefits equivalent to those it is providing through mutual traffic exchange may request the compensation mechanism be changed.

g) Local/Toll Distinction

To distinguish local from toll traffic, BellSouth proposes to provide ALECs with NXX codes to the extent that the ALECs require them for use in the calling areas the ALECs want to establish. BellSouth also proposes a toll default mechanism whereby a BellSouth customer is calling an ALEC and the NXX code used by the ALEC is such that BellSouth cannot determine whether the call is local or toll, then BellSouth will treat that ALEC for that call in the same manner that it treats an IXC: BellSouth would charge originating switched access for that call. To avoid paying BellSouth originating intrastate network access charges, the ALEC will have to provide sufficient information to determine whether the traffic is local or toll. However, if BellSouth does not provide an ALEC with access to a sufficient number of numbering resources so that BellSouth can tell whether or not a call is local or toll, the call will be deemed local.

In addition, BellSouth proposes that on the terminating side of calls, a percent local usage factor be used for determining local traffic from toll traffic, in addition to the percent interstate usage factor used today for switched access. BellSouth, however, states that eventually there should be one rate structure for toll and local calls.

MCImetro asserts that it should be allowed to file its own access charge tariff, with the only requirement being that the total charge for originating and terminating toll calls by MCImetro not exceed the total rate that would have been paid to BellSouth.

MFS-FL also proposes the use of a percent local utilization (PLU) factor to determine the amount of calls that are local versus toll. The PLU factor is similar to the percent interstate utilization used by IXCs. This system would be subject to LEC audit. Under MFS-FL's proposed PLU system, when MFS-FL sends calls to BellSouth, MFS-FL would provide on a quarterly basis a percentage breakdown between calls sent to BellSouth that were local versus toll. BellSouth would apply the percentages and apply them to the total local and toll minutes that they receive and send a bill to MFS-FL for those calls. MFS-FL contends that the PLU will solve jurisdictional problems for both originating and terminating calls. Even under mutual traffic exchange, MFS-FL states that it wants to use the PLU, because local and toll traffic would be carried on the same trunk and the ALEC needs to account for both types of calls.

For originating and terminating intrastate toll traffic, we find it appropriate to require the parties to pay each other BellSouth's tariffed intrastate switched network access service rate on a per-minute-of-use basis. The charges are already tariffed and cover the cost of terminating and originating toll traffic. When an ALEC customer places a toll call to a BellSouth customer and the ALEC serves as the toll carrier, BellSouth shall charge the ALEC terminating network access service rates and vice versa. If the ALEC is serving as a BellSouth customer's presubscribed long distance carrier, then BellSouth can charge the ALEC originating access charges and vice versa. Since the IXCs are currently treated this way, ALECs and LECs competing in the long distance market should also be treated this way.

Although the parties do not oppose the use of switched access charges for the exchange of toll traffic, the parties differ regarding a mechanism that distinguishes between local and toll traffic. BellSouth and MFS-FL agree to the use of a PLU factor to distinguish between local and toll calls. Although we are not averse to the use of a PLU factor, there is insufficient evidence in the record to calculate a specific PLU. Accordingly, when it cannot be determined whether a call is local or toll, the local exchange provider shall be assessed originating switched access charges for that call unless the local exchange provider originating the call can provide evidence that the call is actually a local call. BellSouth and the ALECs may negotiate alternative terms for compensating each other for exchanging toll traffic. If an agreement for such terms is negotiated, the agreement shall be filed with the Commission before it becomes effective.

III. TARIFFING INTERCONNECTION RATES

Our review of the record indicates that the parties agree that BellSouth should file a tariff for its interconnection rates and other arrangements. We find that these interconnection rates and other arrangements shall be available to all similarly situated ALECs on a non-discriminatory basis. Section 364.162 (2), Florida Statutes, states that whether set by negotiation or by the Commission, interconnection prices, rates, terms, and conditions shall be filed with the Commission before their effective date.

Tariffing the interconnection rates makes these rates generally available. If a company believes that its situation is different from the other ALECs' in this proceeding, it may negotiate its own rates, terms, and conditions with BellSouth.

IV. DELIVERY OF CALLS ORIGINATED OR TERMINATED FROM CARRIERS NOT DIRECTLY CONNECTED TO THE ALEC'S NETWORK

This delivery of calls originated or terminated from carriers not directly connected to the ALEC's network involves interconnection among ALECs and IXCs that are interconnected with BellSouth but not with each other. Under this arrangement, BellSouth would perform an intermediary function by passing calls from one carrier's network to the other's.

MFS-FL's position was the most comprehensive and persuasive. MFS-FL requested four items regarding intermediary interconnection which are discussed below.

a. All carriers should be permitted to subtend the LEC tandem.

This provision would allow ALECs to connect to BellSouth's access tandem. Access tandems are switches designed to aggregate and switch toll traffic. Every LEC central office within a LATA (local access and transport area) is connected either directly or indirectly with an access tandem. Therefore, connection at the access tandem can provide access to all customers within a LATA. We address this in Section XIII of this Order.

b. <u>Meet-point billing should follow established industry guidelines.</u>

All parties agreed that meet-point billing arrangements are appropriate for this traffic. The ALECs agreed that standard meet-point billing arrangements that currently exist among adjacent LECs are appropriate and should apply.

BellSouth did not provide a position regarding the details of meet-point billing arrangements. MFS-FL claimed that BellSouth wanted a more restrictive meet-point billing arrangement with ALECs than it had with other LECs. Although this may have been true in negotiations, the record does not support this position. BellSouth stated that meet-point billing arrangements, where each carrier bills its portion of the interconnection arrangement, may be required. We interpret this to mean that meet-point billing may be appropriate, and that whatever rates each company agrees to or is entitled to recover should be reflected in the agreement.

Accordingly, we find it appropriate for BellSouth to establish meet-point billing arrangements with MFS-FL and MCImetro as it has with adjacent LECs. Meet-points for rating purposes shall be established at mutually agreeable locations.

c. <u>Collocated ALECs should be permitted to cross-connect without transiting the BellSouth network.</u>

This provision would allow two ALECs that are both collocated at a BellSouth central office to connect directly with each other. MFS-FL stated that BellSouth should charge MFS-FL and the other connecting entity one-half the currently tariffed BellSouth special access cross-connect rate and that MFS-FL would share the cost with whomever it is cross-connected. MFS-FL also stated that the LEC should not be permitted to build inefficiencies into ALEC networks by requiring them to interconnect to facilities other than ones where they are already adjacent.

BellSouth disagreed and stated that collocation was not intended for carriers other than the LEC to interconnect with each other. Also, BellSouth argues that such arrangements are prohibited under its current access tariff.

Upon review, we find that MFS-FL's request is appropriate. Although our collocation orders did not address third-party interconnection, we agree that it is an efficient way for ALECs to interconnect with each other and should be implemented. See Orders Nos. PSC-94-0285-FOF-TP, issued March 10, 1994, and PSC-95-0034-FOF-TP, issued January 9, 1995, in Docket No. 920174-TP. Therefore, BellSouth shall offer such arrangements at one-half its special access cross-connect rate.

d. The carrier providing terminating access should collect the RIC.

The RIC is a charge created by the FCC when it restructured interstate local transport rates. When the rates were restructured, local transport and tandem switching rates were lowered. To compensate for the lost revenue, the RIC was implemented as a rate element to recover these revenues. When intrastate local transport rates were restructured in Florida, a similar rate was implemented for intrastate toll. See Orders Nos. PSC-95-0034-FOF-TP, issued January 9, 1995, and PSC-95-0680-FOF-TP, issued June 6, 1995, in Docket No. 920174-TP.

The issue before us involves toll calls sent through BellSouth's network and terminated on an ALEC's network. BellSouth maintains that it should bill and keep the RIC, while the ALECs argue that the company terminating the call should collect the RIC.

AT&T asserted that the RIC has been purposefully disassociated with the local transport function. AT&T and MFS-FL agreed that the RIC should flow through to the company terminating the call. AT&T also asserted the RIC should be eliminated altogether because there is no underlying direct cost associated with the RIC and even with its elimination, BellSouth's switched access charges would still be many hundred percent above cost.

BellSouth argued to keep the RIC. Witness Scheye stated that the RIC recovers a portion of a LEC's transport and tandem revenue requirements, and was established as a part of the FCC's local transport restructure decision. When local transport was restructured, the RIC was established to recover the shortfall between the overall local transport revenue requirement and the revenues generated by the new and lower transport and tandem switching charges. The method selected to collect the RIC was to simply apply the charge to terminating access minutes measured at the end office where the call was terminated.

BellSouth states that the collection of the RIC was a revenue requirement issue. The reason that current LEC arrangements allow for the terminating company to collect the RIC is that they have RIC revenue requirements, therefore, collecting the RIC helped each company recover its revenue requirements. By collecting the RIC when terminating the call, instead of the company transporting its own call, each company was in fact recovering the other company's revenue requirement. Also, BellSouth states that the ALECs will not have a revenue requirement associated with a RIC charge. Since the ALEC will not have a RIC cost, there would be no legitimate reason to allow the ALEC to collect the RIC. On the other hand, the LEC transporting and switching the call will still have such a revenue requirement.

We disagree with BellSouth's arguments. The collection of the RIC is no longer a revenue requirement issue. BellSouth is no longer rate base regulated; it is price regulated. Revenue requirements are a concept only applicable under rate base regulation; they are neither consistent with nor relevant to price regulation.

Accordingly, we find that carriers providing tandem switching or other intermediary functions shall collect only those access charges that apply to the functions they perform. If a LEC provides tandem switching, it shall be entitled to tandem switching revenues. If a LEC provides some local transport to a meet-point location, then it shall receive a portion of the local transport and switching revenues. Access charges shall be split fairly according to the functions each carrier performs. To ensure fairness to all carriers, the RIC shall be billed and collected by the carrier terminating the call.

Thus, BellSouth shall establish meet-point billing arrangements with ALECs as it has with adjacent LECs. Meet-points, for rating purposes, shall be established at mutually agreeable locations. ALECs collocated in BellSouth wire centers shall be permitted to cross-connect without transiting the BellSouth switch. BellSouth shall charge each ALEC one-half its special access cross-connect rate.

V. EXCHANGE OF INTRALATA 800 TRAFFIC

BellSouth asserts that during the initial phase of competition, the exchange of 800 traffic will be minimal. BellSouth proposes that the parties resolve, on their own, the issue of technical and financial arrangements for exchanging 800 traffic.

Under the terms of the Stipulation, BellSouth will compensate ALECs for the origination of 800 traffic terminated to BellSouth pursuant to the ALEC's originating switched access charges including the database query. The ALEC will provide to BellSouth the appropriate records necessary for BellSouth to bill its customers. The records will be provided in a standard ASR/EMR format for a fee of $0.015 per record. When an ALEC elects to provide 800 services, the ALEC will reciprocate this arrangement.

The record reflects that neither MCImetro nor AT&T opposes the terms for intraLATA 800 calls described in the Stipulation. MFS-FL agrees that BellSouth should compensate ALECs for the origination of 800 traffic terminated to BellSouth pursuant to the ALEC's originating switched access charges including database queries. MFS-FL contests the Stipulation's requirement that BellSouth and ALECs mutually provide appropriate records in the standard ASR format for a fee of $0.015. MFS-FL argues that assessing such a fee would increase prices for end-users and that BellSouth will be compensated for these queries by billing the IXCs switched access. Further, MFS-FL states that LECs and ALECs will be required to reciprocally exchange significant amounts of information as competition develops, and therefore, these records should be reciprocally exchanged without any fees.

Upon review of the record, we find that compensating a local exchange service provider for the origination of 800 traffic is appropriate. BellSouth shall compensate ALECs for the origination of 800 traffic terminated to BellSouth pursuant to the ALEC's originating switched access charges including the database query. The ALEC shall provide to BellSouth the appropriate records necessary for BellSouth to bill its customers. The records shall be provided in a standard ASR/EMR format for a fee of $0.015 per record. When an ALEC elects to provide 800 services, the ALEC shall reciprocate this arrangement.

VI. PROVISION OF 911

This section regards the provision of Basic 911 service to ALEC customers. Section VII addresses Enhanced 911. Basic 911 provides direct access to an emergency operator so that the caller can report his or her location and reason for calling. Enhanced 911 automatically provides the emergency operators with the customer's location and telephone number.

MFS-FL, MCImetro, AT&T and BellSouth agree that 911 trunking arrangements should be provided through ALEC leased or owned facilities to the appropriate BellSouth 911 tandem that contains the customer's Public Safety Answering Point.

Sprint asserts that 911 services should be available to the ALECs at the same rates, terms and conditions that are available to the incumbent LECs. McCaw supports the ALECs' requests.

Continental and FCTA state that 911 service should be provided under the same terms and conditions as listed in the Stipulation. TCG and Time Warner state that resolution of this issue should not be anticompetitive or discriminatory. The relevant terms and conditions of the Stipulation are as follows:

> For Basic 911 service, BellSouth will provide a list consisting of each municipality in Florida that subscribes to Basic 911 service. The list will also provide E911 conversion date and for network routing purposes a ten-digit directory number representing the appropriate emergency answering position for each municipality subscribing to 911 service. Each ALEC will arrange to accept 911 calls from its customer in municipalities that subscribe to Basic 911 service and translate the 911 call to the appropriate 10-digit directory number as stated on the list provided by BellSouth and route that call to BellSouth at the appropriate tandem or end office. When a municipality converts to E911 service, the ALEC shall discontinue the Basic 911 procedures and begin the E911 procedures.

MFS-FL and MCImetro agree that this provision in the Stipulation addresses a majority of their 911 concerns; however, they state that the Stipulation has some deficiencies that they would like addressed. MCImetro asserts that BellSouth should work cooperatively with MCImetro to ensure that MCImetro's customer data is in the proper format for inclusion into the appropriate 911 databases. MCImetro asserts that all 911 trunking arrangements should conform with industry standards and that MCImetro's 911 trunks should be afforded the same level of restoration as BellSouth's 911 trunks. Further, MCImetro states that BellSouth should give MCImetro at least 48 hours advanced notice of any scheduled testing or maintenance of the 911 network and provide immediate notification of any unscheduled outage. BellSouth states that 911 trunks must be capable of carrying Automatic Number Identification (ANI) and conform to industry interface standards. We agree that customer data must be provided in the proper format, trunking arrangements must meet industry standards, and ALECs should be notified of any work or outages, both scheduled and unscheduled, to the 911 network.

MFS-FL states that interconnection to BellSouth's 911/E911 network should occur at MFS-FL's proposed Designated Network Interconnection Point. This proposal is addressed in Section XIII of this Order.

It appears that there were no points of contention, rather, only areas in need of clarification. At a minimum, the customers in BellSouth's service territory are entitled to the same level of emergency service as provided today. Therefore, we require that:

1) BellSouth shall provide MFS-FL and MCImetro with access to the appropriate BellSouth 911 tandems.

2) MFS-FL and MCImetro shall be responsible for providing the trunking, via leased or owned facilities which are capable of carrying Automatic Number Identification, to the 911 tandems.

3) All technical arrangements shall conform to industry standards.

4) BellSouth shall notify MFS-FL and MCImetro 48 hours in advance of any scheduled testing or maintenance and provide immediate notification of any unscheduled outage.

5) BellSouth shall provide a list consisting of each municipality in Florida that subscribes to Basic 911 service, the E911 conversion date and a ten-digit directory number representing the appropriate emergency answering position for each municipality subscribing to 911 service.

6) Each ALEC shall arrange to accept 911 calls from its customer and translate the 911 call to the appropriate 10-digit directory number and route that call to BellSouth at the appropriate tandem or end office.

7) When a municipality converts to E911 service, the ALEC shall discontinue the Basic 911 procedures and begin the E911 procedures.

VII. ENHANCED 911

MFS-FL, MCImetro, AT&T and BellSouth agree that procedures are needed for updating appropriate E911 databases. MFS-FL, MCImetro and AT&T state that the procedures should include mechanized access to the databases.

Sprint asserts that 911 services should be available to the ALECs at the same rates, terms and conditions that are available to the incumbent LECs. McCaw supports the ALECs' requests.

Continental and FCTA state that E911 service should be provisioned under the same terms and conditions as listed in the Stipulation. TCG and Time Warner state that resolution of this issue should not be anticompetitive or discriminatory. The relevant terms and conditions of the Stipulation are as follows:

> For E911 service, the ALEC will connect the necessary trunks to the appropriate E911 tandem, including the designated secondary tandem. If a municipality has converted to E911 service the ALEC will forward 911 calls to the appropriate E911 primary tandem along with the ANI, based upon the current E911 end office to tandem homing arrangement as provided by BellSouth. If the primary tandem trunks are not available, the ALEC will alternate route the call to the designated secondary E911 tandem. If the secondary tandem trunks are not available, the ALEC will alternate route the call to the appropriate Traffic Operator Position System (TOPS) tandem.
>
> In order to insure proper working of the system, along with accurate customer data, the ALEC will provide daily updates to the E911 data-base. BellSouth will work cooperatively with the ALEC to define record layouts, media requirements, and procedures for this purpose.

MFS-FL and MCImetro agree that the Stipulation language addresses a majority of their 911 concerns; however, both assert that the Stipulation does not sufficiently address database transactions and updates. MFS-FL and MCImetro assert that BellSouth should arrange for ALECs to have automated input and daily updating of the Master Street Address Guide and other E911 databases. BellSouth states that procedures must be in place to handle transmission, receipt and daily updates to the various databases used in provisioning E911 service. BellSouth has discussed providing the Master Street Address Guide to the ALECs either by print or diskette. BellSouth maintains that it will provide mechanized access to databases as soon as it is capable, but there is no timetable or cost estimate for this function. In addition, BellSouth states that it will verify and edit ALEC updates to the E911 database just as BellSouth does for the Independent Local Telephone companies. Any errors found will be returned to the ALECs and the ALECs will be responsible for correcting the data.

Upon consideration, we find that BellSouth shall provide mechanized access to any database used for provisioning E911 service.

We believe that the companies are in the best position to determine the particulars of mechanized database access. Thus, we find that MFS-FL, MCImetro and BellSouth shall work together and file with this Commission, within 60 days of the issuance of this Order, a comprehensive proposal for mechanized access to any database used for provisioning E911 service. The proposal shall include cost and price support, and a list of operational procedures.

MFS-FL states that interconnection to BellSouth's 911/E911 network should occur at MFS-FL's proposed Designated Network Interconnection Point. This proposal is addressed in Section XIII of this Order.

MCImetro asserts that all 911 trunking arrangements should conform with industry standards and that its 911 trunks should be afforded the same level of restoration as BellSouth 911 trunks. MCImetro also adds that BellSouth should give MCImetro at least 48 hours advanced notice of any scheduled testing or maintenance of the 911 network and provide immediate notification of any unscheduled outage. BellSouth states that 911 trunks must be capable of carrying Automatic Number Identification (ANI) and conform to industry interface standards. It appears that the companies are referring to 911 service generically. We agree that trunking arrangements must meet industry standards, and ALECs should be notified of any work or outages, both scheduled and unscheduled, to the 911/E911 network.

Accordingly, we find that:

1) BellSouth shall provide MFS-FL and MCImetro with access to the appropriate BellSouth E911 tandems, including the designated secondary tandem.

2) If the primary tandem trunks are not available, the ALEC shall alternate route the call to the designated secondary E911 tandem. If the secondary tandem trunks are not available, the ALEC shall alternate route the call to the appropriate Traffic Operator Position System (TOPS) tandem.

3) MFS-FL and MCImetro shall be responsible for providing the trunking, via leased or owned facilities which are capable of carrying Automatic Number Identification, to the E911 tandems.

4) All technical arrangements shall conform to industry standards.